

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name BRANCH COUNTY MENTAL HEALTH AUT.	County BRANCH
Fiscal Year End 09/30/06	Opinion Date 02/13/07	Date Audit Report Submitted to State 03/13/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	NOTHING SIGNIFICANT	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) RUMSEY & WATKINS, P.C.		Telephone Number 517-279-7931	
Street Address 20 TIBBITS PLAZA		City COLDWATER	State MI
Authorizing CPA Signature 		Printed Name TIMOTHY J. TAYLOR	License Number 1101015828

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2006

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Rumsey & Watkins, P.C.

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Branch County Community Mental
Health Authority
Branch County, Michigan**

February 13, 2007

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Branch County Community Mental Health Authority as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Branch County Community Mental Health Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, of the Branch County Community Mental Health Authority as of September 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**Board of Directors
Branch County Community Mental
Health Authority
Branch County, Michigan**

February 13, 2007

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch County Community Mental Health Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Rumsey & Watkins PC".

RUMSEY & WATKINS, P.C.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Branch County Community Mental Health Authority presents the following overview and analysis of financial activities during the past fiscal year. Branch County Community Mental Health Authority was created as a Mental Health Authority effective October 1, 2001.

Overview of Financial Statements

Two types of financial statements are provided: Government-wide and Fund financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. Branch County Community Mental Health Authority, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds/General Fund has a narrower focus than that of the government-wide financial statements in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary Fund is an internal service fund which is held for self-insurance against future risk. This fund consists of State of Michigan Department of Community Health, local funding and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons.

Fiduciary Fund is a fund held by the Authority in a trustee capacity or as an agent for the other funds of governments. The Authority uses this fund to accumulate resources for payment of employee compensated absences.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Comparison with Prior Year

Fiscal year 2005 revenues were \$9,060,332 compared to fiscal year 2006 revenues of \$9,058,038, an overall decrease in 2006 of \$2,294. This difference was mainly attributed to the fact that during fiscal year 2006, \$307,412 additional State funding was earned, offset by a decrease of \$301,876 in Medicaid funding. During fiscal year 2006, the Authority was over their \$1,570,640 allocation from the State of Michigan Department of Community Health for managed mental health support and services to residents of Branch County. The Authority utilized \$47,735 of their risk exposure funds of their Internal Service Fund and a section 236 transfer from Lapeer County Community Mental Health in the amount of \$34,733 to absorb the shortfall of \$82,468. Additionally, a decrease in earned contract revenues were offset by an increase in interest earned.

Fiscal year 2005 expenses of \$8,893,899 compared to fiscal year 2006 expenses of \$8,921,898, an overall increase in 2006 of \$27,999. This difference was mainly attributed to increases in State Facility and Community Inpatient sponsorships, Habilitation Waiver services, and Outpatient services. Those increases were mainly offset by significant decreases in Residential and Community Support services.

Strength of Financial Position

Changes in financial position which help ensure the agency's future ability to provide services are:

	<u>Balance 09/30/05</u>	<u>Balance 09/30/06</u>	<u>Increase (Decrease)</u>
Internal Service Fund	\$ 129,597	\$ 86,809	\$ (42,788)
General Fund:			
Fund Balance - Undesignated	<u>1,280,368</u>	<u>1,416,508</u>	<u>136,140</u>
Total Fund Balance	<u>\$ 1,409,965</u>	<u>\$ 1,503,317</u>	<u>\$ 93,352</u>

The Internal Service Funds together with the unrestricted fund balance of the General Fund represent an estimated 90 days of operations based on daily operational needs.

Analysis of Differences Between Original and Final Budgeted Amounts Compared to Actual

Over the course of the year, the Authority revises the budget as it attempts to deal with unexpected changes in revenues and expenditures. An original budget was adopted in the first quarter of the fiscal year and changes were made throughout the year. A final budget was adopted before year end and both budgets are reflected in the financial statements.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

About Fiscal Year 2006

Fiscal year 2006 was a year of continuing challenges and changes for the Authority as a member of a five county affiliation called Venture Behavioral Health, consisting of Barry, Berrien, Branch, Calhoun, and Van Buren counties. This membership was mandated by the State of Michigan for the distribution of Medicaid funding and was driven by Medicaid covered lives. Any county with less than 20,000 covered lives was forced to join with other counties in order to receive Medicaid funding. While Branch County Community Mental Health Authority receives Medicaid funds through this Prepaid Inpatient Health Plan (PIHP) configuration through Venture Behavioral Health, General Fund operations remain unchanged.

The Authority participates in a local match program to acquire additional Medicaid funding. This was a contract mandated program by the State of Michigan. Participation in this program required a local match amount of \$110,459, the amount of local match required for Medicaid services in fiscal year ended 2002.

The Authority remained conservative in spending in fiscal year 2006 due to the ongoing threat of impending State budget reductions. This conservative stance has been a part of the Authority's culture on an ongoing basis. Fortunately, without reductions in State and Medicaid revenue during 2006, mental health and developmental disability services and general operations remained unchanged.

During 2006, the Authority expanded their services in the area of Substance Abuse. This decision was made in part to offer Branch County residents better coordination of care for those with both a mental illness and substance abuse disorder and to provide a "one stop" approach. Funding for Substance Abuse services has been obtained through a contract with Kalamazoo Coordinating Substance Abuse Agency, Local Agency Contracts and from the individuals requesting services.

About the Future

The State of Michigan is still in the process of rebasing their funding allocation method for Medicaid. Overall State of Michigan funding is also being scrutinized and revised at this time. It is currently unknown how further cuts and these funding stream revisions will affect the Authority. Therefore, we continue to operate very modestly. Client services are of the utmost priority as we continue to look for ways to decrease expenditures. Fiscal year 2007 will also be a challenging year as changes in revenues continue to threaten operations. We anticipate an executive order in the second quarter of 2007 reducing the State of Michigan budget. Additionally, we anticipate in 2007, there will be a modification in our Substance Abuse Coordinating Agency status.

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	Governmental Activities
ASSETS	
Cash and investments	\$ 2,942,639
Receivables:	
Accounts receivable	61,665
Accrued interest receivable	14,743
Due from contract agencies	101,276
Due from State of Michigan	23,741
Due from other governmental units	49,248
Prepaid expenses	118,768
Capital assets, less accumulated depreciation of \$403,471	<u>113,718</u>
 Total assets	 3,425,798
LIABILITIES	
Accounts payable	170,878
Due to the State of Michigan	18,145
Due to Venture Behavioral Health	1,088,646
Due to contract agencies	261,135
Accrued expenses	177,783
Deferred revenue	92,176
Long term liabilities:	
Compensated absences	<u>203,060</u>
 Total liabilities	 2,011,823
NET ASSETS	
Investment in capital assets	113,718
Unrestricted	<u>1,300,257</u>
 Total net assets	 <u><u>\$ 1,413,975</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating / Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental activities				
Health & Welfare:				
Mental Health	<u>\$ 8,936,553</u>	<u>\$ 6,872,674</u>	<u>\$ 251,901</u>	\$ (1,811,978)
General revenues:				
Grants and contributions not restricted				1,827,455
Unrestricted investment earnings				99,429
Miscellaneous revenues				<u>11,526</u>
Total general revenues				<u>1,938,410</u>
Change in Net Assets				126,432
Net Assets - Beginning				<u>1,287,543</u>
Net Assets - Ending				<u><u>\$ 1,413,975</u></u>

See Notes to Financial Statements

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2006**

	Governmental Fund Types
ASSETS	
Cash and investments	\$ 2,810,076
Accounts receivable	61,665
Accrued interest receivable	12,762
Due from contract agencies	101,276
Due from State of Michigan	23,741
Due from other governmental units	49,248
Due from other funds	47,735
Prepaid expenses	<u>118,768</u>
 Total assets	 <u><u>\$ 3,225,271</u></u>
 LIABILITIES AND FUND BALANCE	
 LIABILITIES	
Accounts payable	\$ 170,878
Due to State of Michigan	18,145
Due to Venture Behavioral Health	1,088,646
Due to contract agencies	261,135
Accrued expenses	177,783
Deferred revenue	<u>92,176</u>
 Total liabilities	 1,808,763
 FUND BALANCE	
Undesignated	<u>1,416,508</u>
 Total liabilities and fund balance	 <u><u>\$ 3,225,271</u></u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
SEPTEMBER 30, 2006**

Total Fund Balance - Governmental Funds	\$ 1,416,508
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the governmental funds:

The cost of the capital assets	517,189
Accumulated depreciation	<u>(403,471)</u>

Total capital assets not reported in funds	113,718
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An internal service fund is used by management to accumulate
resources for the shared risk arrangement with the State
of Michigan for future mandated services. The assets and
liabilities of the internal service fund are included in governmental
activities in the statement of net assets:

Net assets of governmental activities accounted for in the internal service fund	86,809
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Long-term liabilities are not due and payable in the current period
and are not reported in the governmental funds:

Compensated absences	<u>(203,060)</u>
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Total Net Assets - Governmental activities	<u><u>\$ 1,413,975</u></u>
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**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

GOVERNMENTAL FUNDS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Governmental Fund
REVENUES	
Local sources	\$ 1,141,784
State sources	<u>7,916,254</u>
Total revenues	9,058,038
EXPENDITURES	
Mental Health	<u>8,921,898</u>
Excess of revenues over expenditures	136,140
FUND BALANCE - BEGINNING	<u>1,280,368</u>
FUND BALANCE - ENDING	<u><u>\$ 1,416,508</u></u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Net change in Fund Balance - Total Governmental Funds	\$ 136,140
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(23,874)
Capital outlay	<u>75,542</u>
Total	51,668
An internal service fund is used by management to accumulate resources for the shared risk arrangement with the State of Michigan for future mandated services. The net revenue (expense) of the internal service fund are included in governmental activities in the statement of net assets:	(42,788)
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds in accordance with GASB Interpretation No. 6:	<u>(18,588)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 126,432</u></u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Cash and investments	\$ 132,563
Accrued interest receivable	<u>1,981</u>
Total assets	134,544
LIABILITIES	
Due to other funds	<u>47,735</u>
NET ASSETS	
Unrestricted	<u><u>\$ 86,809</u></u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

PROPRIETARY FUNDS

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

	Governmental Activities Internal Service Fund
NONOPERATING REVENUES (EXPENSES)	
Interest earned	\$ 5,837
Unrealized gains (loss) on investments	(890)
Risk exposure funds utilized for mental health services	<u>(47,735)</u>
Total nonoperating revenues (expenses)	<u>(42,788)</u>
CHANGE IN NET ASSETS	(42,788)
NET ASSETS - BEGINNING	<u>129,597</u>
NET ASSETS - ENDING	<u><u>\$ 86,809</u></u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Governmental Activities Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Earnings from operations	\$ -
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:	
Risk exposure funds utilized for mental health services	6,000
CASH FLOW FROM INVESTING ACTIVITIES:	
Interest received	<u>5,847</u>
NET INCREASE IN CASH	11,847
CASH - BEGINNING	<u>20,512</u>
CASH - ENDING	<u><u>\$ 32,359</u></u>

**BRANCH COUNTY COMMUNITY
MENTAL HEALTH AUTHORITY**

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	Agency Fund
ASSETS	
Cash	<u>\$ 203,060</u>
LIABILITIES	
Accrued expenses	<u>\$ 203,060</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Branch County Community Mental Health Authority provides services under the name of Pines Behavioral Health Services. The accounting policies of the Authority conform to generally accepted accounting principles in the United States of America as applicable to local governmental units. The following is a summary of significant policies:

REPORTING ENTITY:

On October 1, 2001, the Authority was established under MCL 330.1205, Section 205. The Authority has the responsibility of providing mental health services to the local residents of Branch County.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements, the statement of net assets and the statement of activities; report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants, who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:

Government-wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proprietary and Fiduciary fund financial statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

GOVERNMENTAL FUNDS

General Fund is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund.

PROPRIETARY FUND

Internal Service Fund is an unbudgeted fund for the risk exposure for future mandated services.

FIDUCIARY FUNDS

Agency Fund is used to account for assets held by the Authority in a trustee capacity or as an agent for the other funds of governments. The Agency Fund is custodial in nature, assets equal liabilities, and do not involve the measurement of results of operations. The Authority established the Agency Fund to accumulate resources for the future payment of compensated absences.

ASSETS, LIABILITIES, AND NET ASSETS

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Trade receivables are shown net of an allowance for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in government-wide and fund financial statements.

Inventories – The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities do not fluctuate from year to year. The cost of supplies are expensed when purchased.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, AND NET ASSETS – Continued

Capital Assets – Capital assets, which include furniture, fixtures and computers, are reported in the applicable governmental activities column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Authority does not have infrastructure-type assets.

Furniture, fixtures and computers are depreciated using the straight-line method over the following useful lives:

Furniture and fixtures	5-10 Years
Computers	5 Years

Compensated Absences – The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, for employees who are currently eligible to receive termination payments.

BASIS OF BUDGETING:

The Authority adopted their annual budget based on the modified accrual method of accounting. Revenues and expenditures were adopted and amended by the Board by the functional level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by law. The Board did not include a beginning fund balance within the approved budget. Amendments were made to the budget during the year.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

NOTE B – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The Authority uses financial institutions and their trust department for cash and investment purposes, which is in accordance with statutory authority. The accounts maintained are checking, savings, certificates of deposit and U.S. Government Obligations. The Authority uses a pooled money market account for the General and Fiduciary Funds. The respective transactions are accounted for separately within the proper fund.

As of September 30, 2006, the pooled money market account is as follows:

General Fund	\$ 490,836
Fiduciary Fund	<u>203,060</u>
Total pooled money market account	<u><u>\$ 693,896</u></u>

The Authority also holds a money market account in the Internal Service Fund, in the amount of \$32,359.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2006, the Authority had the following investments excluding the investments in money market funds:

Investment	Amount	Maturity Date
FNMA Bond	\$ 149,953	October 15, 2006
FHLB Bond	149,250	December 15, 2006
FNMA Bond	49,984	October 15, 2006
FHLB Bond	148,969	April 20, 2007
FHLB Bond	50,219	November 14, 2008
FHLB Bond	150,656	November 14, 2008
Total	<u>\$ 699,031</u>	

Interest rate risk – In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The Authority does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk of deposits – In the case of deposits, this is the risk that in the event of a financial institute failure, the Authority's deposits may not be recovered. As of September 30, 2006, \$2,461,400 of the Authority's bank balance of \$2,561,400 was exposed to custodial credit risk because it was uninsured and uncollateralized.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS - Continued

Custodial credit risk of investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities allowed by law and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business.

NOTE C – ACCOUNTS RECEIVABLE

The Authority allows their patients, who predominantly reside in the County of Branch, to charge their portion of fees for services. As of September 30, 2006, patient accounts receivable amounted to \$23,969.

For patients that have medicare and private insurance, the Authority bills the appropriate agencies for their portion of the services. As of September 30, 2006, medicare and private insurance accounts receivable amounted to \$37,696.

NOTE D – DUE TO STATE OF MICHIGAN

The Authority entered into a managed mental health supports and services contract with the Department of Community Health, a department of the State of Michigan, to provide mental health services to the residents of Branch County and for the funding of costs incurred for county residents in state facilities.

The Authority was funded by the State of Michigan for the net matchable costs incurred in providing mental health services to the residents of Branch County. The entitlement earned under the contract was \$1,870,324 in 2006. As of September 30, 2006, \$18,145 was due to the State of Michigan, which represents the excess funds received over the amount earned under the contract for 2006.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE E – DUE TO VENTURE BEHAVIORAL HEALTH

In years prior to fiscal year 2003, the State of Michigan contracted directly with each county's mental health agency for Medicaid managed specialty support and services. Beginning in the fiscal year 2003, the State of Michigan separated the state into regions and bid the contracts for these services.

The Authority formed an affiliation under the Intergovernmental Agreement for the Transfers and Responsibilities Act (IFTRA) with other Community Mental Health Authority's. The affiliation named Venture Behavioral Health was successful in acquiring the Medicaid managed specialty support and services contract with the State of Michigan.

Venture Behavioral Health funded the Authority for the net matchable costs incurred in providing Medicaid managed specialty support and services to the residents of Branch County. The revenue earned was \$5,979,316 for the year ended September 30, 2006. As of September 30, 2006, \$1,088,646 was due to Venture Behavioral Health, which represents the excess funds, advanced over the amount earned during the year ended September, 30, 2006.

NOTE F – DUE FROM (TO) OTHER FUNDS

Interfund receivables/payables, as of September 30, 2006, are as follows:

General Fund:

Due from Internal Service Fund	<u>\$ 47,735</u>
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BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED SEPTEMBER 30, 2006****NOTE G – CAPITAL ASSETS**

Capital asset activity of the Authority's governmental activities was as follows:

	Balance 10/01/05	Additions	Disposals	Balance 09/30/06
GROUP:				
Furniture and fixtures	\$ 254,541	\$ 56,404	\$ 12,940	\$ 298,005
Computers	200,046	19,138	-	219,184
Subtotal	454,587	75,542	12,940	517,189
ACCUMULATED DEPRECIATION:				
Furniture and fixtures	215,629	10,015	12,940	212,704
Computers	176,908	13,859	-	190,767
Total accumulated depreciation	392,537	23,874	12,940	403,471
Net Capital Assets	<u>\$ 62,050</u>	<u>\$ 51,668</u>	<u>\$ -</u>	<u>\$ 113,718</u>

Depreciation expense was charged to activities of the Authority as follows:

GOVERNMENTAL ACTIVITIES:

Health and Welfare - Mental Health	<u>\$ 23,874</u>
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NOTE H – DEFERRED REVENUE

The Authority entered into a grant with the State of Michigan for local funding under Public Act 423. As of September 30, 2006, \$61,665 was estimated as receivable from insurance companies, Medicare and clients for charges for services. These charges, if collected, would have been included in the formula under the grant provisions and, therefore, are being deferred until collected.

The Authority has received \$30,511 under other various grants agreements which will be expended in future years and is recorded as deferred revenue as of September 30, 2006.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE I – COMPENSATED ABSENCES

The Authority allows employees to accumulate annual and sick leave days based on their contracts. The accumulated compensated absences represent the estimated liability to be paid to the employees under the various contracts. The Authority has established the agency fund for the accumulation of resources for the payments of these benefits.

NOTE J – LEASE AGREEMENTS

The Authority has two noncancellable leases for office facilities with the County of Branch. One lease, which expires December, 2010, is to be paid in monthly installments which vary according to the lease agreement. The current payment is \$4,210 per month. The other building lease, which expires March, 2011, is to be paid in monthly installments of \$3,173.

The Authority has two noncancellable leases for building facilities with the State of Michigan. The leases, which expire July, 2010 and November, 2012, are to be paid in monthly installments of \$2,138 and \$2,142, respectively.

The following is a schedule by years of future minimum payments required under the lease agreements:

Year ending September 30 :

2007	\$ 140,580
2008	141,661
2009	140,971
2010	138,456
2011	58,172
2012 and after	<u>29,990</u>
Total lease payments	<u><u>\$ 649,830</u></u>

Total rental expense included in the excess of revenues over expenditures amounted to \$151,062 for the year ended September 30, 2006.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE K – RETIREMENT PROGRAM

The Authority maintains a 401(k) plan, and is administered by a financial institution's trust department. Plan provisions are established or amended by Board resolution. Under the plan, employees may elect to defer a portion of their wages, subject to Internal Revenue Service limits. The Authority contributes a match of 50% of the employee deferral up to the maximum of 5% of wages. The Authority may make discretionary contributions. For the year ended September 30, 2006, actual contributions by the Authority and plan participants amounted to \$98,268 and \$113,805, respectively.

NOTE L – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The Authority has purchased commercial insurance for the coverage of the above discussed events.

NOTE M – CONTINGENCY

The Authority is involved with a grievance that is set for arbitration in April 2007. At this time, an assessment of any potential loss, if any, is reinstatement of the terminated employee and back compensation. Management plans to defend this suit vigorously and it is the opinion of management that the outcome will have no material adverse effect on the financial position of the Authority.

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 1,167,785	\$ 1,219,306	\$ 1,141,784
State sources	<u>8,548,631</u>	<u>8,560,461</u>	<u>7,916,254</u>
Total revenues	9,716,416	9,779,767	9,058,038
EXPENDITURES			
Mental health	<u>9,716,416</u>	<u>9,779,767</u>	<u>8,921,898</u>
Excess of revenues over expenditures	-	-	136,140
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>1,280,368</u>
FUND BALANCE - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,416,508</u></u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
BALANCE SHEETS

	September 30,	
	2006	2005
ASSETS		
Cash and investments	\$ 2,810,076	\$ 1,920,272
Accounts receivable	61,665	91,942
Accrued interest receivable	12,762	11,024
Due from contract agencies	101,276	112,075
Due from State of Michigan	23,741	11,435
Due from other governmental units	49,248	67,217
Due from other funds	47,735	-
Prepaid expenses	118,768	113,850
	<u>118,768</u>	<u>113,850</u>
Total assets	<u>\$ 3,225,271</u>	<u>\$ 2,327,815</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 170,878	\$ 170,211
Due to State of Michigan	18,145	176,948
Due to Venture Behavioral Health	1,088,646	22,672
Due to contract agencies	261,135	290,756
Due to other funds	-	6,000
Accrued expenses	177,783	175,201
Deferred revenue	92,176	205,659
	<u>92,176</u>	<u>205,659</u>
Total liabilities	1,808,763	1,047,447
FUND BALANCE		
Undesignated	<u>1,416,508</u>	<u>1,113,935</u>
Total liabilities and fund balance	<u>\$ 3,225,271</u>	<u>\$ 2,161,382</u>

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

STATEMENTS OF REVENUES AND EXPENDITURES

	Year Ended September 30,	
	2006	2005
REVENUES		
Local revenue:		
Contract agencies	\$ 662,402	\$ 693,736
County allocation	180,000	180,000
Patient and insurance services	131,612	131,426
Prevention program	61,762	53,755
Interest earned	94,368	58,446
Unrealized gain (loss) on investments	114	(11,530)
Other	11,526	17,180
State revenue:		
Department of Community Health	1,870,324	1,562,912
Specialty managed care services	5,979,316	6,281,192
Area agency grant	27,019	27,526
Family Independence Agency	9,258	43,766
OBRA evaluation fees	26,612	18,198
Title XX replacement	3,725	3,725
Total revenues	9,058,038	9,060,332
EXPENDITURES		
Client service management	527,760	477,912
Agency operations	674,212	571,013
Inpatient services	298,755	241,978
Outpatient services	1,339,023	1,235,239
Community support services	1,037,684	1,220,094
OBRA active treatment	61,323	58,379
Institutional care	121,715	78,327
Specialized residential services	2,871,719	2,961,767
Prevention grant	123,526	107,506
CHC Behavioral health services	535,848	537,483
Family support services	51,791	99,102
Assertive community treatment	218,269	217,458
Board administration	887,334	923,286
Home based services	62,480	53,896
Medicaid local funds	110,459	110,459
Total expenditures	8,921,898	8,893,899
Excess revenues over expenditures	\$ 136,140	\$ 166,433

BRANCH COUNTY COMMUNITY MENTAL HEALTH AUTHORITY
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND
STATEMENTS OF EXPENDITURES

	Year Ended	
	September 30,	
	2006	2005
Salaries	\$ 2,515,009	\$ 2,500,892
Pension	98,268	93,222
Employee insurance	434,050	420,156
Payroll taxes	174,890	176,403
Unemployment benefits	-	18,010
Workers compensation	18,886	14,172
Office supplies	23,146	22,773
Operating supplies	19,379	18,478
Medical supplies	96,238	62,220
Board per diem	11,575	9,675
Membership and dues	27,677	13,381
Community support services	920,920	1,143,029
Inpatient services	420,482	320,305
Residential services	2,820,020	2,910,626
Clinical services	50,962	46,143
Waiver aide services	38,187	20,304
Community waiver	34,932	39,644
Respite	52,278	61,320
Professional services	363,953	301,241
Telephone	35,157	39,481
Education and workshops	13,420	16,723
Travel	70,640	73,330
Printing and publishing	33,198	17,077
Insurance and bonds	114,526	99,788
Utilities	29,145	26,337
Repairs and maintenance	85,959	65,028
Lease expense	151,062	123,338
Management fees	13,499	10,667
Miscellaneous	21,154	4,084
Public relations	20,195	9,699
Non depreciable capital outlay	8,502	63,329
Depreciable capital outlay	75,542	23,500
Shared managed risk contribution	-	6,360
Medicaid local funds	110,459	110,459
Compensated absences contribution	18,588	12,705
Total expenditures	<u>\$ 8,921,898</u>	<u>\$ 8,893,899</u>